

UNITED STATES DISTRICT COURT  
DISTRICT OF MINNESOTA

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Fair Isaac Corporation, )  
 ) File No. 16-CV-1054  
Plaintiff, ) (WMW/DTS)  
v. )  
 )  
Federal Insurance Company, an ) Minneapolis, Minnesota  
Indiana corporation; and ACE ) August 22, 2019  
American Insurance Company, a ) 1:30 p.m.  
Pennsylvania corporation, )  
 )  
Defendants. )  
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BEFORE THE HONORABLE DAVID T. SCHULTZ  
UNITED STATES DISTRICT COURT MAGISTRATE JUDGE  
(MOTIONS HEARING)

**APPEARANCES**

**For the Plaintiff:** **MERCHANT & GOULD, PC**  
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**For the Defendants:** **FREDRIKSON & BYRON, PA**  
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**P R O C E E D I N G S**

**IN OPEN COURT**

THE LAW CLERK: All rise.

THE COURT: Good afternoon. Be seated.

MR. HINDERAKER: Good afternoon.

THE COURT: All right. We are on the record in the matter of Fair Isaac Corporation v. Federal Insurance Company, et al, Civil No. 16-1054.

Counsel for the plaintiff, if you would note your appearance for the record, please.

MR. HINDERAKER: Your Honor, Allen Hinderaker and Joe Dubis from Merchant & Gould, and James Woodward, Vice President and Deputy General Counsel at FICO.

THE COURT: Good afternoon to the three of you.

Counsel for the defendant, if you would note your appearance for the record.

MR. FLEMING: Good afternoon, Your Honor. Terry Fleming, along with Leah Janus and Christian Hokans, of the Fredrikson Law Firm representing the defendants.

THE COURT: Good afternoon to the three of you.

All right. Mr. Fleming, it is your motion. If you'd come on up to the podium. Before you start, let me ask you a question. Was there anything about the Complaint or what was it about the Complaint that led you to not plead the statute of limitations as an affirmative defense

1 initially? And for these purposes I'm just referring to the  
2 Second Amended Complaint. Okay?

3 MR. FLEMING: Yes, Your Honor. Your Honor, the  
4 initial Complaint was filed back in April 2016, and there  
5 are a breach-of-contract claim and a copyright-infringement  
6 claim.

7 With regard to the breach-of-contract claim, the  
8 Complaint focuses on alleged violations of Sections 10.8,  
9 which is not at issue here, but Section 3.1 also, which is  
10 the provision dealing with license restrictions. And at the  
11 time we filed our initial answer and the amended answers, we  
12 had no reason to believe that the statute of limitations was  
13 at play, that it was an issue.

14 The Complaint itself, of course, doesn't mention  
15 the word "territory" or "installation." And as we went  
16 through discovery in the briefing process, we still did not  
17 believe that the statute of limitations was an issue.

18 We understood that FICO from the very beginning --  
19 when the merger occurred back in 2016, when Mr. Carretta and  
20 Mr. Sawyer were making demands of Federal, in their demand  
21 letters they referenced alleged violations of the License  
22 Agreement based on use. They say nothing about  
23 installation.

24 When we go through discovery in response to our  
25 interrogatory responses, we ask specific questions asking

1 FICO to identify the third parties that received access to  
2 Blaze in violation of the agreement, and they identify only  
3 foreign entities and non-compliant applications outside of  
4 the United States.

5 With regard to their responses to interrogatories  
6 relating to damages, they characterized their damages as  
7 being based on unlicensed "use," not unlicensed  
8 "installation." We took depositions of Mr. Carretta. In  
9 response to questions, he basically said there was no  
10 distinction between installation and use. He said they're  
11 synonymous.

12 When we received their expert reports, Neil  
13 Zoltowski, who was their key primary damages expert, said  
14 specifically -- he quantified their damages as being 21.3  
15 million in lost licensing fees resulting from improper  
16 usage.

17 So then, of course, even more recently in FICO's  
18 motion in support of their motion to exclude testimony of  
19 Steve Kursh for three pages (pages 15 to 18) they talk about  
20 the distinction between use and installation, and they say  
21 in a footnote "This distinction matters." Yet when you go  
22 to their memorandum in response to our motion, they say on  
23 page 1, "Federal brings this motion for leave to amend based  
24 on a false premise. Federal creates a distinction without a  
25 difference." I mean, it's got to be one or the same. There

1       either is a distinction or there isn't.

2               From the very beginning, when the initial demands  
3       were made of our client, as we went and looked at the  
4       Complaint, as we looked through the responses to discovery  
5       and also, of course, their damages limited their damage  
6       calculations for improper usage to the applicable  
7       limitations period, so there was no reason to believe there  
8       was a need to raise the affirmative defense of statute of  
9       limitations.

10              Then in their motion that they filed just last  
11       month they say that -- so just to step back a little bit,  
12       under Section 3.1 there is two alleged breaches. One deals  
13       with this territorial provision, which is the one at issue  
14       and substantively important in our discussion today. But  
15       there's another alleged violation that they've brought a  
16       motion for summary judgment on relating to the signatory of  
17       the License Agreement.

18              Just to be clear, the statute of limitations  
19       doesn't impact that argument. I mean, we have a substantive  
20       argument that when an unincorporated division signs a  
21       contract, there is well-established case law that it is the  
22       corporation itself which is the signing entity for all  
23       contractual purposes.

24              THE COURT: Let me stop you for a second.

25              MR. FLEMING: Yes.

1 THE COURT: You raise a question that I want to  
2 make sure I understand.

3 On the copyright claims -- let's just take those  
4 for a second -- this argument does not have any consequence,  
5 correct? Whether the statute of limitations is pleaded or  
6 not pleaded, they get to go back three years from the filing  
7 of the Complaint, correct?

8 MR. FLEMING: They get to go back three years, but  
9 I don't believe they can rely upon a circumstance that gives  
10 rise to liability that goes back before the six or the three  
11 years.

12 THE COURT: I'm trying to make sure I understand  
13 exactly why. The parties care quite clearly about this  
14 issue and care very deeply, and I want to understand for  
15 sure what exactly the consequence is.

16 So is it your argument that the triggering event,  
17 at least under what you would now say is FICO's theory of  
18 the case, is the installation OUS and that that is the  
19 triggering event of both the infringement and the breach of  
20 contract?

21 MR. FLEMING: Yes.

22 THE COURT: And your point would be that -- set  
23 aside the breach of contract -- then on the infringement  
24 claim you're saying that if the triggering event is the  
25 installation and that were more than three years ago, there

1 would be no copyright infringement -- viable  
2 copyright-infringement claim because it was too long ago, at  
3 least for those applications or those installations OUS?

4 MR. FLEMING: If that is their triggering event  
5 which gives rise to the liability, they have to make an  
6 argument there is a continuing use or a continuing  
7 violation --

8 THE COURT: Right.

9 MR. FLEMING: -- and I don't believe they can  
10 under the breach-of-contract claim. They rely on, of  
11 course, New York law, as they must, but they cite three  
12 cases, none of which cases hold that installing software is  
13 a continuing breach. Rather, there's three cases -- there  
14 is the *Garron* case, which involves a continuing breach of an  
15 implied covenant of habitability in the landlord-tenant  
16 dispute.

17 There's the *Airco Alloys* case, which simply states  
18 as a question of fact whether a breach claim is still  
19 actionable as a continuing breach and makes clear that such  
20 claims accrue based on each breach. There has to be a  
21 breach within the limitations period.

22 And their final case, *Meadowbrook Farms*,  
23 specifically held that since the plaintiff only seeks  
24 damages for alleged breaches that occurred in the six years  
25 prior to the commencement of the action, the causes of

1 action are not time barred.

2 So none of those cases hold that there is a  
3 continuing -- that installing software is a continuing  
4 breach.

5 And then with regard to the copyright-infringement  
6 case, that's more complicated. I mean, first of all,  
7 generally acts of Congress don't apply outside of the  
8 territory of the United States. They try to get around that  
9 issue by arguing this predicate act doctrine, which was  
10 first established by Learned Hand in 1939. Very few cases  
11 have discussed the case since then. The Eighth Circuit has  
12 certainly not approved it or utilized it in any manner.

13 But they would have to show, in order for the  
14 predicate act doctrine to apply, that any of the named  
15 defendants in this lawsuit profited from the foreign  
16 installations such that the court would gain jurisdiction  
17 under this doctrine. There's simply been no showing of  
18 that. And, of course, it made no explanation as to how  
19 merely using software abroad constitutes copyright  
20 infringement. So there are those burdens that they have.

21 THE COURT: Is that because use abroad is abroad?  
22 Is that what you're saying, that it's not copyright  
23 infringement because it's use abroad?

24 MR. FLEMING: Yes.

25 THE COURT: Okay. A couple of observations, I



1 guess. One, in preparation for this hearing, I went back  
2 and I re-read the Complaint, specifically the Second Amended  
3 Complaint, and here's what I thought you would say in answer  
4 to my question: If you read the Second Amended Complaint,  
5 it seems to me it's a fair reading -- there's three  
6 captions, if you will, that are italicized in the Second  
7 Amended Complaint. The first is *Breach of the*  
8 *Non-Assignment Provision*, paragraph 10.8 of the agreement.  
9 And that makes it clear that that breach occurred as of the  
10 date of the merger, January of 2016.

11 The next caption is *Breach of the Prohibition*  
12 *Against Disclosing FICO Products to Third Parties Or*  
13 *Permitting Use of or Access to FICO Products By Third*  
14 *Parties*, paragraph 3.1 of the license granted by the  
15 agreement. And then there are some allegations in that  
16 segment that talk about Chubb & Son as distinguished from  
17 the third parties. I'll come back to this point in a  
18 second.

19 Then the third caption is *Breach of*  
20 *Post-Termination Obligations*, and that's clearly after 2016,  
21 after January of 2016, because it was terminated after the  
22 merger.

23 So I guess my observation is -- and I'm sure  
24 you're not going to disagree with me; I suspect  
25 Mr. Hinderaker will -- that it's not an unreasonable reading

1 of the Complaint in light of those captions, but then with  
2 the following paragraphs that the breach first begins with  
3 the merger in 2016. And the allegations with respect to  
4 3.1, disclosure (paragraph 3.1) could certainly be  
5 interpreted to refer to disclosure to parties that were  
6 unauthorized which occurred -- again, it was disclosed to  
7 them by virtue of the merger. Are you following me?

8 MR. FLEMING: Yes.

9 THE COURT: And so whether or not that's what was  
10 intended or whether or not that's the only reading, it  
11 strikes me that that's one possible reading. And if that  
12 were the reading, then there would be no reason to plead the  
13 statute of limitations. Right?

14 MR. FLEMING: Agreed.

15 THE COURT: Okay. I know I'll hear from FICO  
16 about why that's wrong, but -- okay.

17 I'm still really struggling to understand why  
18 unauthorized use -- let me put it this way: The testimony  
19 or the statement by Mr. Carretta that installation and use  
20 are the same I must not be following, because you keep  
21 bringing it up and I keep thinking that helps them. So  
22 explain that to me.

23 MR. FLEMING: Well, the difficulty or --  
24 allegations of continued use could be a continuing breach,  
25 but continuing -- or it could be a continuing breach or

1 continuing copyright infringement use. But installation  
2 itself is not a continuing violation. So it does make a  
3 difference.

4 THE COURT: But, again, that brings me back to my  
5 first question. It only makes a difference in that it may  
6 cut off some period of damages.

7 Now, set aside copyright for a second. Assuming  
8 continuous use is a breach of the agreement itself and  
9 they're right on it, the best that this argument gets you is  
10 a shorter damages period. Am I tracking on that?

11 MR. FLEMING: You're right about that.

12 THE COURT: Okay. And that issue -- assuming this  
13 is allowed, how that affects the ultimate merits, that's  
14 going to be up to Judge Wright.

15 MR. FLEMING: Agreed.

16 THE COURT: On the copyright issue, again, it  
17 seems to me that we're still in the same place. I don't  
18 think their -- their copyright-infringement case going back  
19 three years from the date of the initiation of the lawsuit  
20 includes use within the United States, correct?

21 MR. FLEMING: Yes.

22 THE COURT: So I'm back to my square one. If  
23 you're wildly successful, it seems to me I'm hearing three  
24 possible results: You don't get the amendment so you don't  
25 get it. You get the amendment, but you're partially

1       successful in convincing Judge Wright of some things. Or  
2       you get the amendment and you're wildly successful. What  
3       happens in the latter two of those circumstances?

4               MR. FLEMING: In terms of?

5               THE COURT: What happens to their claims --

6               MR. FLEMING: Well, if it's just a cut-off, they  
7       are able to go back to that time period up until the  
8       limitations period.

9               THE COURT: Right.

10              MR. FLEMING: But if they can't use the  
11       circumstance itself to establish liability because it's  
12       beyond that six-year time period, the claim itself would be  
13       time barred.

14              THE COURT: But if their argument is the License  
15       Agreement as a matter of contract was breached, at least as  
16       I hear it in the words of Mr. Carretta, by installation and  
17       thereafter use, that's all you've got, right? I mean, that  
18       argument is assuming on my part this is not a triggering  
19       event. It's a triggering event plus events thereafter that  
20       are also breach.

21              MR. FLEMING: Plus continued use you're saying?

22              THE COURT: Right.

23              MR. FLEMING: If they can't use the circumstance  
24       that is over six years old to establish that there was  
25       improper -- that there was installation and breach of the

1 agreement, they don't have anything that occurred within the  
2 six- or the three-year time period that establishes  
3 liability for installation and we're successful in arguing  
4 that the continued use doctrine is not applicable in these  
5 circumstances, the entire claim should be thrown out.

6 THE COURT: Okay. Even if you're allowed to make  
7 that argument, if they convince Judge Wright that use  
8 outside the United States is a breach, that claim goes back  
9 six years from the beginning of the lawsuit regardless of  
10 the installation date, true?

11 MR. FLEMING: Yes.

12 THE COURT: All right. I just want to make sure I  
13 understand fully what's at stake here. Sorry, I didn't mean  
14 to cut you off from your argument.

15 MR. FLEMING: All right. Well, I have made most  
16 of the argument in responding to your questions.

17 The other issue is whether there is any prejudice  
18 to FICO from allowing the defense at this time. There is no  
19 prejudice. They had the opportunity -- they took the  
20 opportunity to take repeated depositions and Rule 30(b)(6)  
21 depositions of Henry Mirollyuz and the topic related to  
22 installation. They had full ability to take the deposition.  
23 They didn't seek to ask any further questions or any other  
24 type of discovery on that issue. And those facts are the  
25 facts. Additional discovery would not change any of that.

1 They had a full opportunity to look into the issue of  
2 installation, and they took advantage of that opportunity.  
3 So it's just an additional defense, which is prejudicial to  
4 them to the extent it cuts off relief, but it's not unfairly  
5 prejudicial.

6 THE COURT: You know, that 30(b)(6) deposition  
7 strikes me as a fact that cuts both ways. It appears to me  
8 to cut in your favor on the question of prejudice. Why  
9 doesn't it cut in their favor on the question of notice to  
10 you and therefore diligence in seeking the amendment?

11 MR. FLEMING: Because they had no reason not to  
12 inquire about the entire time period in which there was any  
13 installation. They had no reason to inquire to a narrower  
14 degree than they would now if we had identified the statute  
15 of limitations as an affirmative defense in the first  
16 instance.

17 They had every reason to inquire about any further  
18 installations that occurred. Instead, they had a full  
19 opportunity to do that with the person knowledgeable about  
20 it without any restraints. I think they took Henry's  
21 deposition three different times. And they didn't ask for  
22 any further discovery on this issue and they could have.

23 THE COURT: I think they would say -- hang on a  
24 second -- well, looking at the Second Amended Notice of  
25 Deposition, and I'm using the shorthand version of it as

1 iterated in FICO's brief and I'm paraphrasing, but the  
2 topics include, for example, identification of each entity  
3 directly or indirectly controlled by Federal and each  
4 subsidiary of Federal that has installed the Blaze Advisor  
5 software on its servers from June 2006 to the date of the  
6 deposition, including the date of each such installation.

7 Were there installations that were not inquired  
8 about in your view? In other words, here's what I am  
9 getting at: I'm trying to avoid a game of got ya on either  
10 side. And, you know, if the answer is they had a deposition  
11 that included the topic of all such installations, the date  
12 of each such installation, and they got testimony on all of  
13 that, then I have a hard time seeing the prejudice, other  
14 than they'd have to defend a legal argument, which is not  
15 prejudice. But if there's installation -- there's facts  
16 about installations that were not disclosed, whether it's  
17 Federal's fault or FICO's fault, then it's a slightly  
18 different situation.

19 So to the extent that you can and will say, are  
20 there installations OUS that are not already disclosed to  
21 FICO?

22 MR. FLEMING: Not that I'm aware of. Remember,  
23 Your Honor, the Rule 30(b)(6) depositions were pretty  
24 wide-ranging. And I don't recall any time I attempted -- I  
25 know there was no time I was successful in cutting off any

1 questioning on those topics. So they had the full range and  
2 the opportunity to ask those questions. I mean, there  
3 wasn't any limitation on that. And they went out there for  
4 the very reason of asking questions on that topic.

5 And, of course, those topics included both  
6 installation and use. There had been no distinction between  
7 those topics, so they were very wide-ranging. I mean, it's  
8 not like there was just one limited deposition on  
9 installation and one limited deposition on use. There were  
10 several depositions, and there was a full opportunity to ask  
11 questions about those items.

12 THE COURT: Okay. Thank you, Mr. Fleming.  
13 Anything further?

14 MR. FLEMING: No, nothing further, Your Honor.

15 THE COURT: Okay. Thank you.

16 MR. HINDERAKER: Good afternoon, Your Honor.

17 THE COURT: Good afternoon.

18 MR. HINDERAKER: You started with a question to  
19 Mr. Fleming and I don't think you got an answer to it. And  
20 then throughout Mr. Fleming's presentation there were  
21 various questions, and some I followed, some of the answers  
22 I did not follow, and I'm going to try to at least be clear  
23 about my understanding of all those various things. And,  
24 please, if I'm not clear or there's more questions,  
25 obviously, that's why I'm here.



1           This motion is being brought three plus years  
2     after this started. The Court looked at the Second Amended  
3     Complaint. The allegations that you focused on, Your Honor,  
4     were in the first Complaint, the second Complaint, and the  
5     Second Amended Complaint. That core basis of our claims has  
6     always been that way. The amendments were to add parties or  
7     do other things, but the fact of the allegation setting  
8     forth as a breach the disclosure of Blaze Advisor to third  
9     parties -- and those third parties are identified, all of  
10    them as being outside of the United States -- has been in  
11    the action since April 21, 2016.

12           Independent of that allegation has been the fact  
13    that persons not employees of Chubb & Son, and for today's  
14    purposes we can say persons not employees of Federal to then  
15    eliminate that distinction, were using and accessing Blaze  
16    Advisor without authority, those being the three entities  
17    outside of the United States.

18           The Second Amended Complaint added two more  
19    entities being third-party consultants to one in Canada and  
20    one in Chubb Australia. So that's always been there, that  
21    we have the installation -- oh, and, I'm sorry, under the  
22    copyright claims, rather than use language from the  
23    Agreement like "disclosure," we use language from the  
24    Copyright Act like "distribution."

25           So it has never been one thing. It has never been

1 unauthorized use. It has never been only installation. It  
2 has always been two things: one, installation outside of  
3 the United States, and use outside of the United States  
4 because of the installation.

5 There's a statement in the defendant's brief to  
6 Your Honor in this case, "FICO has never asserted that use  
7 outside the United States is a permitted use." I fully  
8 agree. And it goes on to say, that may allow foreign use of  
9 the software, but which -- may allow foreign use but which  
10 prohibits foreign installation. And I read that and I said  
11 what in the world does that mean? Does that mean that on  
12 our theory of the case there was an installation of Blaze  
13 Advisor outside of the United States and it's sitting there  
14 dormant doing nothing and never used? Of course,  
15 installation outside of the United States is the necessary  
16 predicate, if you will, by which the second violation was --  
17 or another violation of the agreement, being the use and  
18 access of it by third parties.

19 So from my reading of the Complaint, that has  
20 always been there. I appreciate the Court's reading the  
21 various elements of the Complaint as if it was setting out a  
22 chronology, but it never says that in the Complaint. And  
23 the structure followed the history in which the parties'  
24 termination of the contract occurred. The first even was  
25 the merger. In the context of the negotiations about that

1 it was discovered that there's non-compliant installations  
2 outside of the United States. So it's always been those two  
3 things.

4 If I might put something on the Elmo here. So  
5 with it always being those two things, the 30(b)(6)  
6 deposition of Mr. Mirollyuz, the first one, was about half a  
7 day. All of this conversation about exhaustive and every  
8 stone unturned, looked under, et cetera, Mr. Mirollyuz  
9 answered questions that I put to him. Most of the time I  
10 knew more about when installations occurred than he did  
11 because I gave him the documents to show that. So the 2009  
12 document that's a part of this hearing came out of my file  
13 to Mr. Mirollyuz at that deposition. The 2010, of course,  
14 also came out of my file, but it's inside the statute of  
15 limitations. So we were in the process of demonstrating  
16 there was that breach of the installations.

17 I want to flip to the prejudice for just a second.  
18 It's quite unfair to change the rules when the game is over  
19 with. And if there was a statute of limitations issue pled,  
20 we would have then had reason and cause to inquire about not  
21 only the May 2009 first installation in the U.K., but every  
22 succeeding installation in the U.K.

23 Blaze Advisor, when it was originally licensed,  
24 was licensed to a particular version at the time and over  
25 time. So I think we've gone from I want to say 6 or 6.5 to

1 7.1. Over time we go through various versions. Over time  
2 various versions are -- Chubb & Son, the licensee in the  
3 United States, gets new versions, current versions, and  
4 those versions could've been distributed by Chubb & Son to  
5 the U.K. or Australia or Canada on other dates than I was  
6 aware of from emails. So there would have been a great deal  
7 of diligence involved in following up on all of that had the  
8 statute of limitations been a defense.

9 Now, at the time of that deposition, there was  
10 certainly no doubt that we were interested in installation,  
11 and statute of limitations was not asserted as a defense at  
12 that time.

13 There was also no doubt at that time that any  
14 presumed chronology from the ordering of the Complaint has  
15 no meaning because I'm inquiring about installations that  
16 are pre termination of the agreement.

17 So we have, just to show kind of briefly, if you  
18 can read that, not to read it, but there is this provision  
19 in the License Agreement which is license restrictions. I  
20 think it's Exhibit 1 to Mr. Fleming's declaration. There is  
21 a (i) that says you represent and warrant that you will use  
22 the software in accordance with the agreement. And there is  
23 a (iv), you represent and warrant that you will not permit  
24 any third parties to see it. And then there is a (v), you  
25 will not transfer or distribute.

1           So the Complaint attaches the agreement to it and  
2           therefore all of the allegations -- the Complaint  
3           incorporates the license, incorporates the license  
4           restrictions. And counsel for the defendant is fully able  
5           to read the agreement and see that we allege breach of 3.1.

6           This is the first page of the agreement, Your  
7           Honor. Then you will see under the Definitions section  
8           there is the term "territory." Without going through the  
9           whole argument, there is a dispute between the defendants  
10          and the plaintiff about whether the term "territory" is an  
11          operative provision of the agreement.

12          The defendants would like to say that it's not an  
13          operative provision to the agreement, in which case they  
14          want to say that because they know that installation is a  
15          claim and they want to say it's not an operative term of the  
16          agreement so they can defend against the claim of  
17          installation.

18          The other counter side of the argument is that  
19          2.1, which is the use provision, the grant of license right  
20          is subject to all of the terms and the territorial  
21          definition is one of those terms.

22          This notion that there is not awareness of the  
23          claims, the defendant took at least six depositions of fact  
24          witnesses of FICO people beginning in September 2018. And  
25          in every one of those depositions, Your Honor, FICO's

1 counsel asked -- Federal's counsel asked FICO witnesses do  
2 you see the word territory in paragraph 2.1 for the argument  
3 that there is no restriction on where the software should be  
4 installed in the agreement to try to defend our claims.  
5 There's been awareness of that issue from the outset because  
6 of the Complaint as I read it. But thereafter there was no  
7 doubt in my mind that the defendants knew it because they  
8 inquired about the territorial restrictions and its  
9 operative nature in the Complaint in every deposition that  
10 they took.

11 THE COURT: Let me go back to one of my questions,  
12 because your argument is making that question come up in my  
13 mind again, and that is set aside the claim that the  
14 installation of the software outside the United States is a  
15 claim. Just set that aside. You also have a claim that the  
16 use of the software exceeded the license. And is your  
17 argument then use outside the United States is itself a  
18 breach of the License Agreement and therefore it's also  
19 copyright infringement -- well, leave the second part of  
20 that off for a second because of the territorial limits of  
21 the Copyright Act?

22 MR. HINDERAKER: With respect to the contract  
23 action, and I believe the defendants acknowledge this in  
24 their brief as one of the reasons that they didn't assert  
25 the statute of limitations originally, their argument is we

1       only knew that foreign use was a breach, which I've just  
2       tried to say is nonsense, and therefore because there is  
3       continuing foreign use there is a continuing breach and  
4       therefore the statute of limitations doesn't apply and  
5       therefore that's why we didn't plead it, that's what's in  
6       their brief.

7               But to answer your question, the continuing use of  
8       Blaze Advisor outside of the United States by the employees  
9       of Chubb Europe, Chubb Canada, Chubb Australia, yes, that's  
10      a continuing breach of the representation and warranties by  
11      Federal -- well, it was a continuing breach up until the  
12      time the agreement was terminated, yes.

13             THE COURT: Their argument, though, is there's  
14      nothing -- again, set aside the installation claim. Their  
15      argument is there is nothing in the License Agreement that  
16      prohibits extraterritorial use or there is?

17             MR. HINDERAKER: All right. So I'm --

18             THE COURT: I'm sorry. I know I'm confusing this.

19             MR. HINDERAKER: To sort it out -- let's sort it  
20      out because we're talking different things. FICO will go to  
21      trial on the proposition that the term "territory" is one of  
22      the terms of the agreement.

23             THE COURT: Of the agreement, right.

24             MR. HINDERAKER: Paragraph 2.1 says it's subject  
25      to the terms, therefore, software must be installed in the

1 United States. So now we have the instance of the software  
2 is installed outside of the United States. That's a breach.

3 Now the software outside of the United States is  
4 being used in support of the sale of insurance of these  
5 different entities and that is also a breach. It's a breach  
6 of 3.1 (iv).

7 THE COURT: Right. Can you put 3.1 back up.

8 MR. HINDERAKER: Yes. So the language is "or  
9 permit the use or access of the Fair Isaac products by any  
10 third party or any individuals other than employees of  
11 client."

12 THE COURT: If software is installed in the United  
13 States on a server that is owned by or located in -- well,  
14 the server of an appropriate entity under the agreement,  
15 okay, software is sitting there, but somebody in the U.K. is  
16 allowed from the U.K. to access that software for purposes  
17 of underwriting or pricing insurance that is being sold in  
18 the U.K., is that a violation of the agreement?

19 MR. HINDERAKER: Yes.

20 THE COURT: All right. So --

21 MR. HINDERAKER: There's another hypothetical.

22 THE COURT: Go ahead.

23 MR. HINDERAKER: Software is installed in the  
24 United States. It is being used by the appropriate entity.

25 THE COURT: In the United States.



1 MR. HINDERAKER: In the United States. And it is  
2 supporting business operations of entities outside of the  
3 United States. That's okay.

4 THE COURT: So in terms of what's permitted,  
5 according to FICO's position, as long as I (Chubb & Sons)  
6 have this software loaded on my server, as long as I (an  
7 employee of Chubb & Sons) is using the software because I'm  
8 on the phone with somebody from the U.K. and I'm using the  
9 software and I say, okay, the answer to your question what  
10 you should price this at is X, that's all fine?

11 MR. HINDERAKER: That's all fine.

12 THE COURT: But both the installation and the use  
13 by people outside the United States is your claim? And in  
14 the second part where --

15 MR. HINDERAKER: For the pre termination  
16 activities.

17 THE COURT: For the pre termination activities.  
18 All activities post termination are a violation. But for  
19 the pre termination activities if the software -- well,  
20 whether or not -- wherever it's installed, if it's used  
21 outside the United States directly accessed by people who,  
22 in your view, are not appropriate persons to use the  
23 software, it's a violation of the agreement?

24 MR. HINDERAKER: It's a different lawsuit. It's  
25 not our fact pattern. But it's a violation of the

1 agreement.

2 THE COURT: Yeah, it's a different fact pattern,  
3 but legally it's sort of non-consequential. What I'm  
4 getting at is -- back to my first question, which is this  
5 seems like a tempest in a teapot because, at least in your  
6 argument, installation is a violation and every time they  
7 use it is a violation, right?

8 MR. HINDERAKER: Outside the United States.

9 THE COURT: Right. And I get that we don't have a  
10 fact pattern that says they were using it, but it was only  
11 installed in the U.S. It would be a different lawsuit. But  
12 it was installed in the U.K., used in the U.K. Even  
13 allowing for the statute of limitations, it doesn't seem to  
14 affect anything other than going back six years from the  
15 time the Complaint was filed, unless their argument is the  
16 triggering event means it's all out, and the triggering  
17 event is installation.

18 MR. HINDERAKER: That whole triggering event, let  
19 me -- I want to talk about the triggering event. Let me  
20 first answer your question. The first answer to your  
21 question is yes, there is a continuing breach by the  
22 continuous use of the software outside of the United States.

23 I also believe, because counsel used the word "act  
24 of installation," as if that's a one-time thing, I put up  
25 the "territory" definition again. The warranty of abiding

1 by the contract is the software with respect to *the*  
2 installation and physical location, it will be the United  
3 States. It's not about -- the contract claim is about the  
4 continuing location of the software. When the software was  
5 installed in the U.K., that was a breach. The fact that  
6 it's still installed in the U.K. is still a breach.

7 So on the futility argument prong of this  
8 presentation on the contract side there is a continuing  
9 wrong of use and access by third parties outside the United  
10 States; there was. And there was a continuing continuous  
11 breach of the installation from the moment of  
12 installation -- 2009, the earliest one I'm aware of. That  
13 provision was in continuous violation.

14 So I think that in part answers the triggering  
15 event argument in the sense that on the contract side there  
16 is no event that isn't continuous.

17 On the copyright side, pre termination only. The  
18 Copyright Act of the six exclusive acts of copyright, one of  
19 them is distribution, 17 U.S.C. 106. That's an act, sending  
20 it out.

21 So I was inquiring of Mr. Mirollyuz about the  
22 installations outside of the United States. That is a  
23 predicate act of copyright infringement. And under the  
24 predicate act doctrine, which no circuit has rejected,  
25 although not every circuit has addressed it, the remedial

1 scope from that predicate act is the three years from filing  
2 the complaint, regardless of when the predicate act  
3 occurred.

4 So a distribution outside of the three-year period  
5 that we're alleging in this case, because it's a domestic  
6 violation of the Copyright Act for exploitation outside of  
7 the United States, the statute of limitations doesn't bar  
8 the three years of damages even if the distribution is  
9 beyond that. So there's futility.

10 Now, we also had other questions -- you know, as  
11 you know from the brief, another set of depositions was --  
12 about building on installation was about where is the  
13 software hosted and what versions of the software are hosted  
14 where and when, which, of course, put them on notice again  
15 of what they always knew, that installation was part of the  
16 deal, and that was a long time ago as well, not after the  
17 game is over with.

18 Going back, however, to the continuous breaches, I  
19 mean, we know that there was a distribution to Canada in  
20 2010 December inside of the statute of limitations. We know  
21 there was a distribution of a different version of Blaze  
22 Advisor in Europe in September of 2013. And we know there  
23 was another distribution in Canada in 2015. The factual  
24 record with respect to Australia is a little murkier. Our  
25 perfect 30(b)(6) witness didn't know. And, again, if the

1 statute of limitations mattered, those are the sort of  
2 questions that we would have drilled down on to learn of  
3 every installation after April, within the three-year period  
4 for a copyright claim and our contract claim for the  
5 six-year period. So if we had reason to press for  
6 additional discovery to get around, if you will, all the  
7 claims within the statutory period, we would have been on  
8 notice to do that.

9 Now, in terms of does it matter at the end of the  
10 day in terms of damages, our damages case on the contract  
11 side only goes back six years. Our damages case on the  
12 copyright side only goes back three years. We were aware  
13 that -- you know, not to be pigs and also to not get  
14 ourselves in trouble, and we had no reason to think that --  
15 well, if the Court agrees with us that under the predicate  
16 act doctrine the copyright claims cannot be barred and  
17 therefore the amendment is futile, then that's the answer to  
18 this motion.

19 If the Court thinks that the amendment is not  
20 futile, that there's some merit to the statute of  
21 limitations, then that's where the heightened prejudice to  
22 us just hits the roof, because then if we should have made  
23 more discovery of installations within the three-year period  
24 of copyright, then we would have. But there was no reason  
25 to do that because the defense wasn't pled and it was

1 waived, and we knew we had these continuing breaches. And  
2 from our point of view, we believe the predicate act  
3 doctrine makes it futile. We complied with the predicate  
4 act doctrine, keeping our damages within the three-year  
5 period and that was that.

6 But if the Court disagrees that that doesn't make  
7 the copyright action futile, well, then we have a big  
8 surprise on our hands because we didn't take the discovery  
9 to satisfy what now turns out to be a gap. I think it is  
10 futile, but if the Court disagrees, then we should have been  
11 here on this motion some years ago in time to take the  
12 discovery.

13 Thank you, Your Honor.

14 THE COURT: Okay. Thank you.

15 Mr. Fleming. How does all of this tie in with  
16 what I understand to be a very big portion of your defense  
17 and maybe even a portion of your summary-judgment motion,  
18 which is it was an enterprise-wide license? Right? And  
19 you're construing "enterprise-wide" to mean the whole  
20 shebang, right?

21 MR. FLEMING: Yes.

22 THE COURT: Which would include U.K., and  
23 Australia, and Canada. If you're right on that, then they  
24 lose no matter what. Right? If you're wrong on that --  
25 well, I've understood both of your arguments, but I'm still

1 struggling with why -- other than the argument about, you  
2 know, the predicate act, which isn't for the copyright side  
3 a time issue I don't think; and for the contract action I'm  
4 not persuaded that it matters because you can call it  
5 continuous use if you want, but under their interpretation  
6 each use is its own breach. So I'm still struggling with  
7 why this much matters. And I know in some measure that's  
8 for Judge Wright to figure out, but -- sorry, that's a  
9 rambling question. If you perceive a question in there,  
10 answer it, by all means.

11 MR. FLEMING: Well, there is a lot of different  
12 issues that have to be settled with regard to each provision  
13 of the Software License Agreement. Either party may prevail  
14 on various of those arguments. And specifically with regard  
15 to Section 3.1, this issue about Chubb & Son as the  
16 signatory, it confuses things when we're addressing this  
17 argument about use and installation because it's a  
18 completely separate argument. But when there's a discussion  
19 about it, it sometimes appears as if you're talking about  
20 installation and use, but you're really talking about the  
21 entity or the signatory argument.

22 If we are successful on the signatory argument --  
23 that is, that as a matter of law an unincorporated division  
24 signing a contract is the same as the corporation signing  
25 the contract so that for all purposes Federal is the client

1 and had use of the software according to the agreement, then  
2 the fact that there was use outside of the United States,  
3 its entities (Federal's entities) were using the Blaze  
4 software. So that whole argument about the violation of  
5 Section 3.1 simply by virtue of who the entity was that was  
6 using it is gone. And I think we will be successful on  
7 that.

8 Then the only argument they have is with regard to  
9 the territorial limitation. And with regard to that,  
10 there's evidence that there had been a territorial  
11 limitation in the license grant itself and during the  
12 negotiations it was removed, so it's only in the  
13 definitional section.

14 If we are successful that there is no territorial  
15 limitation by virtue of the fact that there is simply a  
16 definition, but there's no agreement about its use, we  
17 believe the whole claim under Section 3.1 gets dismissed,  
18 both for purposes of the breach of contract and the  
19 copyright investment. So this isn't just a tempest in a  
20 teapot. It's an issue of a fair amount of significance.

21 To make the argument that we're changing the  
22 rules, one of the issues was installation. Why would you  
23 think you have to stop and not ask about all of the  
24 installations, which I think he did in any event? Why  
25 wouldn't he -- in case the court rules to the contrary about



1 continuing use or continuing violations, why wouldn't he  
2 because of the uncertainty about that? And there weren't  
3 any constraints. It just makes sense if one is asking about  
4 the installation pursuant to this contract that one would  
5 follow through and ask everything about it. Nobody would  
6 not ask a question because they think the statute of  
7 limitations is not at issue so we don't have to ask anything  
8 more. It doesn't make very practical sense if you're in the  
9 moment and you have the topic that you would preclude asking  
10 questions about that for that reason. That was one of the  
11 topics of inquiry, and there's no reason why there wouldn't  
12 have been and there is no reason to believe there wasn't a  
13 full and robust inquiry into that issue and that there is  
14 nothing more to ask.

15 So that argument about changing the rules because  
16 of this defense I don't believe is a credible one. There  
17 was no reason -- there was a full opportunity to ask those  
18 questions and nothing changes. There's no response that is  
19 any different whether there is a statute of limitations or  
20 not.

21 The argument was made about the long delay, but  
22 the Eighth Circuit has been clear. In *Dennis v. Dillard*, it  
23 said unequivocally that delay alone is insufficient to deny  
24 a motion for leave to amend. And as long as there is good  
25 cause and there's no prejudice, the motion to amend to add

1 an affirmative defense should be allowed.

2 THE COURT: Let me ask you this: So have you  
3 raised the statute of limitations defense yet in either your  
4 affirmative summary judgment or your responsive briefing to  
5 theirs?

6 MR. FLEMING: Our responses are due on Monday, and  
7 we will be raising it then.

8 THE COURT: Okay. Does that mean from your  
9 perspective that you need a -- well, I'm assuming, first of  
10 all, if I deny the motion, you're going to raise it anyway.  
11 If I grant the motion, you would want it by Monday, right?

12 MR. FLEMING: That, of course, would be ideal, but  
13 it's --

14 THE COURT: Right. Well, and I'm going to  
15 endeavor to do that one way or another. But okay. Okay.  
16 Sorry. Keep going, Mr. Fleming. Anything else?

17 MR. FLEMING: Just the final point is it's  
18 somewhat repetitive. I was listening with interest to the  
19 questions about, well, what in your opinion is permitted and  
20 what's not permitted, because there have been varying  
21 answers over time given both in discovery and in the motions  
22 that are about to be argued. But, as I understand it, the  
23 statement was if software is installed in the United States  
24 but United Kingdom allowed access to the software, would  
25 that be a violation, and the answer was yes, but I believe

1 that's where this issue about Chubb & Son is the signatory  
2 causes confusion, because if we're successful on that issue  
3 --

4 THE COURT: Right.

5 MR. FLEMING: -- then I don't believe they would  
6 claim that use outside -- as long as the software was  
7 installed in the United States that allowing uses outside of  
8 the United States is a violation. So it's a more nuanced  
9 response than the one that was provided and it's  
10 significant, I think.

11 THE COURT: Well, in that circumstance they would  
12 only be able to fall back on the fact of installation  
13 outside the U.S. and the argument that the "territory" term  
14 is part of the terms and conditions of the contract and  
15 specifically the grant of license in 3.1 or 2.1 -- I think  
16 it's 3.1.

17 MR. FLEMING: 3.1 is the license restriction. 2.1  
18 is the license grant.

19 THE COURT: Okay. So it would be -- in that  
20 circumstance, the only -- if the Court were to find in your  
21 favor on the entity definition, then the only argument they  
22 would have is that the territory restriction is actually a  
23 term of the agreement and it does get incorporated into the  
24 license grant of 2.1.

25 MR. FLEMING: Right.

1           THE COURT: But if you step back from that for a  
2           second -- and probably in answer to this -- but if you were  
3           giving a license to the entire entity, some of which was  
4           physically located outside the United States, why would you  
5           impose that restriction of you can use it, you're all free  
6           to use it, just don't load it on your computers outside the  
7           United States?

8           MR. FLEMING: It makes no sense. It doesn't make  
9           any sense. But the whole argument about Chubb & Son, an  
10          unincorporated division, being the signatory, I mean, an  
11          enterprise license for Chubb & Son, the unincorporated  
12          division is meaningless and they acknowledge that. They say  
13          still it should be Chubb & Son.

14          I mean, the enterprise license, which was based on  
15          -- as they say, the main metric was the revenues of the  
16          overall entity, there is no reason to be using the revenues  
17          of the overall, all Chubb families' revenues, to determine  
18          the license fees unless the thought was the enterprise  
19          license was going to be used throughout the Chubb & Son --  
20          the Chubb families, which includes use outside of the United  
21          States.

22          THE COURT: Anything else?

23          MR. FLEMING: Nothing, Your Honor.

24          THE COURT: Okay. Mr. Hinderaker.

25          MR. HINDERAKER: Yes, sir. You and Mr. Fleming

1 had a conversation about if the agreement was  
2 enterprisewide, and I think by way of your questions you  
3 said what I would have said -- that is, an agreement  
4 enterprisewide and for conversation purposes let's say it's  
5 with Federal, that doesn't negate a different term in the  
6 agreement that says you shall use it in the United States --  
7 you shall only have it installed in the United States.

8 Now, the last question the Court asked is, well,  
9 why? What's the story? Well, during the negotiations for  
10 the original License Agreement, FICO sent out its standard  
11 terms and it said the use will be in the United States.

12 Chubb & Son -- and the fellow is an employee of  
13 Chubb & Son -- responded and said "global." And what FICO  
14 did in response is say to the extent that we can agree to  
15 your terms, it is make the installation physically in the  
16 United States, and then the language about use didn't have  
17 any further restrictions.

18 And the reason for that, Your Honor, is that --  
19 and just as I said earlier and we said in our brief -- if  
20 the software is installed in the United States, it can be  
21 used in support of business operations that happen to be  
22 outside of the United States as long as it's Chubb & Son or  
23 Federal for our conversation that's using the software to  
24 support those other members of the Chubb family. And there  
25 are practical limitations that follow from that.

1           So there are data privacy issues between  
2       countries, for example. There's issues in terms of being  
3       able to have applications that operate in realtime if you  
4       are trying to support Australia from Raleigh, North  
5       Carolina. And where it boils down to FICO, it was would you  
6       like to have global rights? That will cost \$1.1 million  
7       more. And Chubb said, Well, we don't want to pay that much.

8           So the compromise was we had Chubb & Son in the  
9       U.S., and we know that Chubb & Son is supporting various  
10      writing companies -- various other insurance companies. And  
11      as long as the software is installed in the U.S. and Chubb &  
12      Son people are using it, they can support business  
13      operations outside the United States. It's technically  
14      possible. It's not as robust. And they did not pay the  
15      license fee for the more robust solution.

16           THE COURT: Well, and, as a practical matter,  
17      there is no way to police it anyway. If all they're doing  
18      is using it internally to support people across the pond,  
19      you're never going to know that.

20           MR. HINDERAKER: That's probably true about  
21      anything in terms of the license until you discover it, you  
22      know. And, like I'm saying, that kind of a usage for the  
23      licensee isn't as robust as if they had the right to install  
24      it in the U.K., so they didn't pay as much either.

25           Question was put why weren't more questions asked

1 at the 30(b)(6) deposition about the predicate acts? Why  
2 weren't documents produced before that deposition and only  
3 afterwards? I mean, it's really simple to stand at the  
4 podium and say that back in 2018 it would have been done  
5 perfectly because there was a perfect set of discovery at  
6 the time and everything had been produced, but you know how  
7 many times we've been before you on discovery not produced.

8 And on the question of the briefing, Your Honor,  
9 the affirmative briefs for our affirmative summary judgment,  
10 those have been served. We are going to receive -- the  
11 parties are going to on Monday file their responses to what  
12 they received. So I'm hearing that on Monday I'm going to  
13 get a whole new -- I mean, depending on your ruling, but  
14 counsel would give us a whole new set of issues to respond  
15 to, what, within the remaining 2,000 words of the 12,000  
16 limitations?

17 So to suggest that this is going to be raised for  
18 the first time in an opening summary judgment brief in which  
19 case there is an opportunity to respond simply isn't true  
20 because the opening summary judgment briefs have been  
21 served.

22 Thank you.

23 THE COURT: Go ahead.

24 MR. FLEMING: Just briefly, Your Honor.

25 We heard today from Judge Wright that the summary

1 judgment hearing motion date is going to get continued, and  
2 I immediately responded and said, Let's have two more weeks  
3 for briefing and it was rejected. And they knew we were  
4 going to raise this argument since we've had our meet and  
5 confer and we're having this motion today about a statute of  
6 limitations defense on this issue. I mean, there's no  
7 surprise. They know about it.

8 And just two other quick things. This chronology  
9 that was just put forth about the negotiating and refusing a  
10 more fulsome license agreement, that never happened. They  
11 paid for an enterprise license. They paid more for it. It  
12 went from an application to a division to an enterprise  
13 license. I mean, the testimony is pretty clear about that.  
14 There is nothing that would support a claim that there was a  
15 broader license that was provided or suggested that they  
16 wouldn't pay for.

17 Finally, we've made some point of this, is there  
18 any way to police this. They could have audited to find out  
19 the actual use at any time. That was part of the agreement.  
20 They just never chose to exercise that.

21 THE COURT: One observation before you speak,  
22 Mr. Hinderaker. I think it's quite clear in all of this  
23 discussion that teasing out the issue of the statute of  
24 limitations, distinct from all of the merits that you both  
25 talked about, is difficult at best.



1           And one thing I want to make clear I'm not going  
2           to do, obviously, is decide the merits of it. And in that  
3           regard, you know, I will forewarn FICO, of all the  
4           magistrate judges here, I probably deny amendments on the  
5           grounds of futility far more than anyone else. I think some  
6           of the magistrate judges' view is that's not my job. That's  
7           really a dispositive issue. Obviously, I view it  
8           differently.

9           When we're this close to summary judgment and then  
10          trial and the issue of the summary judgment -- or of the  
11          statute of limitations is so interwoven with the merits, I  
12          am unlikely to deny the amendment on grounds of futility,  
13          because it seems like the prudent thing to do in all of  
14          those circumstances of this case is to defer to Judge Wright  
15          on that. I'm just giving you a forewarning on that. But,  
16          obviously, I'll consider the argument. So just an  
17          observation.

18                 Anything further, Mr. Fleming?

19                 MR. FLEMING: No, Your Honor. Thank you.

20                 THE COURT: All right. I am going to give  
21          Mr. Hinderaker the last word. All right?

22                 MR. FLEMING: Yes.

23                 THE COURT: All right.

24                 MR. HINDERAKER: If I wasn't clear about those  
25          negotiations, let me try to say it again. During the

1 negotiations, they happened to be in December 2006, for  
2 enterprise-wide rights, they chose to amend the agreement to  
3 have enterprise-wide rights.

4 What you and I were talking about earlier was  
5 whether those enterprise-wide rights would be global or not  
6 and we priced them for global. We gave them a price for  
7 global they did not accept. So, as a consequence, the  
8 agreement was not changed and it was not global. I hope I  
9 was clear about that.

10 THE COURT: I understand it or at least I'm  
11 deluding myself into thinking I understand it.

12 Okay. So here's what I think I will do:  
13 Obviously, this is an important issue, and I will give it  
14 all the time and attention it merits. Again, I feel like  
15 I'm in that circumstance where if I'm really serving the  
16 parties' interests, it would behoove me to decide the motion  
17 and then verbally or orally on the record give you the  
18 ruling. That way you know what things -- where you sit and  
19 whoever is aggrieved or somehow if you're both aggrieved,  
20 you can appeal that to Judge Wright as quickly as possible.

21 I'm not going to do it today, but I will go look  
22 at it now. And I suspect that I'll have my JA call you or  
23 email you with a time on Monday, and I'll announce the  
24 ruling then with at least sufficient detail that you will  
25 understand the ruling and the rationale for it and you can

1 respond accordingly. Okay? Okay.

2 And I know we're sitting on a couple of other  
3 motions on which we're making progress. That's all I'll say  
4 about that. Okay?

5 MR. HINDERAKER: Very good.

6 THE COURT: Thanks, everyone. We're in recess.

7 (Court adjourned at 2:50 p.m.)

8 \* \* \*

9 I, Debra Beauvais, certify that the foregoing is a  
10 correct transcript from the record of proceedings in the  
11 above-entitled matter.

12 Certified by: s/Debra Beauvais  
13 Debra Beauvais, RPR-CRR  
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